

Adjustments to the aging index will be rounded to a whole percentage. Percentages greater than or equal to .5 will be rounded up. Percentages less than .5 will be rounded down. A facility wishing to do major renovation to their facility must submit a plan for renovation to the Department of Human Services for review and approval to facilitate an adjustment to the provider's aging index. The duration of the renovation plan cannot exceed a three-year period. The plan shall include a detailed description of the renovation to be done along with the cost of the renovation. The Department will determine if the proposed renovation meets the requirements for major renovation.

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The Department will approve or disapprove the renovation project within thirty days of receipt. The provider will then submit a detailed description of the actual work performed and a statement of the actual cost of the renovation upon completion of the project. Renovations that were not completed in compliance with the plan for renovation will not be considered. The Department will notify the provider of the adjustment to the facility aging index as a result of the major renovation. Under no circumstances will the aging index be reduced to less than zero.

5. Aging Index

Age of provider beds for purposes of calculating the aging index were taken from surveys provided by the Arkansas Health Care Association as prepared by providers. The provider is responsible for the accuracy of the information provided. The provider may at any time be required to provide records validating this information. The aging index is subject to adjustment based upon review or audit.

D. Quality Assurance Fee

Act 635 of 2001 established the levy of a quality assurance fee on nursing facilities. The reimbursement rate paid nursing facilities will include a Quality Assurance Fee component. The Quality Assurance Fee component will be reimbursed at the amount established as the multiplier as defined in Act 635 for the date of service billed.

2. Facility Payments - Interim Rates

An interim rate will be established at the beginning of each state fiscal year for each facility. The interim rate will be established by applying the inflation index to the actual per diem rate from the previous rate period. (For the period January 12, 2001 to June 30, 2001, an actual rate will be

calculated from cost reports submitted for the period July 1, 1999 to June 30, 2000. No initial interim rate is necessary because the methodology has been implemented the second half of the rate period and therefore actual rates have been calculated.) The interim rate is necessary to allow time for providers to complete cost reports and allow the Department adequate time to review the cost reports and calculate rates. After the actual per diem calculations occur providers will be paid a weighted per diem rate for the portion of the rate year remaining. The weighted per diem rate will provide for an average payment approximating a providers actual per diem.

The following formula will be used to calculate the weighted per diem rate.

$$\{(\text{Actual Per Diem Rate} \times 12) - (\text{Interim Rate} \times \text{Months Used})\} / \text{Months Remaining.}$$

3. New Facilities and Change of Ownership

A provider who constructs, leases, purchases a facility, or an existing facility that has not previously participated in the Medicaid program, will be paid a provisional rate. The provisional rate will be established as follows.

- A. The Direct Care per diem rate will be established at the inflation adjusted ceiling for that rate period.
- B. The Indirect, Administrative, and Operating per diem will be the class rate as established for that rate period.
- C. The Fair Market Rental Payment will consist of a return on equity payment assuming no debt, a facility rental factor, and property taxes and insurance at the industry average. The industry average for property taxes and insurance will be calculated by dividing the total cost for all full year facilities as identified on facility cost reports by total resident days for the cost reporting period. The per diem payment will be calculated by dividing the sum of the components above by the required minimum occupancy. New facilities that have been constructed will use an occupancy rate of forty percent when calculating the per diem for this component. Facilities have the option of providing documents indicating the actual cost of property taxes and insurance to be used for cost of ownership figures. This information must be provided at least two months prior to their first day of operation.

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A new facility or facility that has changed ownership will submit a six month cost report as required in section 1-6 of this manual. The provisional rate will be retroactively adjusted to the per diem calculated in the following manner.

- A. The provider's direct care per diem rate will be calculated from the six month cost report using the inflation index adjusted ceiling for the applicable rate period. For cost reports that span two rate periods the

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applicable rate period will be considered the one that contains the majority of the days included in the six month report.

- B. The Indirect, Administrative, and Operating per diem will continue to be the class rate as established in the provisional rate.
- C. The amount identified as the sum of the components used in the original calculation for the Fair Market Rental Payment will remain as established in the provisional rate. The actual per diem amount will be adjusted to reflect the greater of actual occupancy, or the minimum required occupancy for facilities that have changed ownership or forty percent occupancy for new facilities. After the initial six-month reporting period the Fair Market Rental payment will be calculated using a minimum occupancy factor as required in these regulations for both new facilities and facilities that have changed ownership.

If either the provisional rate or the actual rate calculated from the six month cost report extend from one rate period to another, appropriate adjustments will be made to the vendor payment. The inflation index will be applied to the direct care per diem. The administrative and operating per diem will be changed to the class rate for the latest rate period. The fair market rental per diem will be adjusted to reflect any change in the PBV for the latest rate period.

4. Terminating Facilities

Facilities that withdraw from the Medicaid program either voluntarily or involuntarily will not be required to submit a final cost report. All payments made to a facility as interim or provisional will be considered as final. This provision does not apply to any fines or penalties that have been imposed on a facility.

5. Inflation Index

For all inflation adjustments (unless stated otherwise in the specific area of the plan) the Department will use the Skilled Nursing Facility Market Basket – Without Capital index published by Standard & Poor's DRI published for the quarter ending June 30th of the cost reporting period. The Department will use the %MOVAVG figure identified for the final quarter of the rate period.

6. Adjustments to Provider Cost Reports

Adjustments to an individual provider's per diem may be necessary as a result of amended cost reports, desk review, or audit. Should a provider's per diem be adjusted for any reason a retroactive adjustment will be made for all resident days paid back to the beginning of the rate period.

Adjustments to a provider's per diem resulting from any source other than

an inquiry for additional information as a result of a desk review for which information is provided within required deadlines will only affect the per diem for that particular provider. Cost component ceilings for applicable cost components and the floor established for direct care will not be adjusted under these circumstances.

7. Cost Components:

For rate setting, facility allowable costs from desk reviewed facility cost reports for an annual period ending June 30, will be identified and grouped as Direct Care, Indirect, Administrative, & Operating, Property Costs (Identified for informational purposes, the reimbursement rate for property costs will be determined by the Fair Market Rental method as outlined above in Item A. 1. C.) and Quality Assurance Fee.

a. Direct Care Expenses

The following expenses are classified as Direct Care.

Salaries-Aides
Salaries-LPN's
Salaries-RNs
Salaries-Occupational Therapists
Salaries-Physical Therapists
Salaries-Speech Therapists
Salaries-Other Therapists
Salaries-Rehabilitation Nurse Aide
Salaries-Assistant Director of Nursing
Salaries-Director of Nursing
FICA-Direct Care
Group Health-Direct Care
Pensions-Direct Care
Unemployment Taxes-Direct Care
Uniform Allowance-Direct Care
Worker's Compensation-Direct Care
Other Fringe Benefits-Direct Care
Contract-Aides
Contract-LPN's
Contract-RN's
Training-Direct Care
Drugs Over-the-Counter
Oxygen
Medical Supplies-Direct Care
Contract-Occupational Therapists
Contract-Physical Therapists
Contract-Speech Therapists

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Contract-Other Therapists
Therapy Supplies
Consultant Fees-Nursing
Raw Food
Food Supplements
Incontinence Supplies

b. Indirect, Administrative, and Operating

The following expenses are classified as Indirect, Administrative & Operating.

Salaries-Administrator
Salaries-Assistant Administrator
Salaries-Dietary
Salaries-Housekeeping
Salaries-Laundry
Salaries-Maintenance
Salaries-Medical Records
Salaries-Other Administrative
Salaries-Owner or Owner/Administrator
Salaries-Activities
Salaries-Pharmacy
Salaries-Social Services
FICA- Indirect, Administrative, and Operating
Group Health- Indirect, Administrative, and Operating
Pensions- Indirect, Administrative, and Operating
Unemployment Taxes- Indirect, Administrative, and Operating
Uniform Allowance- Indirect, Administrative, and Operating
Worker's Compensation- Indirect, Administrative, and Operating
Other Fringe Benefits- Indirect, Administrative, and Operating
Barber & Beauty Expense-Allowable
Consultant Fees-Activities
Consultant Fees-Medical Director
Consultant Fees-Pharmacy
Consultant Fees-Social Worker
Consultant Fees-Therapists
Medical Transportation
Patient Activities
Supplies-Care Related
Other Care Related Costs
Contract-Dietary
Contract-Housekeeping
Contract-Laundry
Contract-Maintenance
Consultant Fees-Dietician

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Consultant Fees-Medical Records
 Accounting Fees
 Advertising for Labor/Supplies
 Amortization Expense-Non-Capital
 Bank Service Charges
 Board of Directors Fees
 Data Processing Fees
 Dietary Supplies
 Depreciation Expense
 Dues
 Educational Seminars & Training
 Housekeeping Supplies
 Interest Expense-Non-Capital
 Laundry Supplies
 Legal Fees
 Linen & Laundry Alternatives
 Miscellaneous
 Management Fees & Home Office Costs
 Office Supplies & Subscriptions
 Postage
 Repairs & Maintenance
 Taxes-Other
 Telephone & Communications
 Travel
 Utilities
 Criminal Backgrounds Check
 Vehicle Depreciation
 Vehicle Interest

c. Property

The following expenses are classified as property.

Insurance-Professional Liability
 Amortization Expense-Capital
 Depreciation
 Interest Expense-Capital
 Property Insurance
 Property Taxes
 Rent-Building
 Rent Furniture & Equipment

d. Quality Assurance Fee

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- H. Cost of specialized rehabilitative services including physical, speech, occupational and mental health, in facilities provided by licensed therapist when such treatment is ordered by a physician. However, these costs will not include the direct cost of services reimbursed by Medicare Part A, Medicare Part B, or other third party payer."
- I. Utilities. This includes electricity, natural gas, fuel oil, water, wastewater, garbage collection and telephone. The costs of staff personal calls and individualized resident telephone services including long distance are not allowable.
- J. Property and Equipment Expenses
1. Amortization Expense -- Costs associated with the origination of a loan allowable under this section will be allowable if amortized over the life of the loan. Costs associated with early retirement of a loan allowable under this section may be allowable. If the amount of the interest plus any unamortized origination fees or prepayment penalties do not exceed the maximum amount of allowable capital interest that would have been allowed had the debt not been paid off, then all of the interest and unamortized costs and other prepayment penalties can be claimed as part of the interest expense for the year. If the unamortized fees and prepayment penalties plus interest exceed the amount that would have been allowed then any excess can be carried forward and claimed for a period of up to five years so long as total interest expense and unamortized fees and prepayment penalties do not exceed the interest amount that would have been allowable under the previous financing arrangement.
 2. Depreciation Expense - Depreciation on the facility's buildings, furniture, equipment, leasehold improvements and land improvements is not allowable. Providers will be required to record and report depreciation expense in the manner indicated below.

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Depreciation on capital assets, including assets for normal standby or emergency use in which the facility is the record title holder and which assets are used to provide covered services to Medical Assistance Recipients, will be reported subject to the following conditions:

- a) Generally accepted accounting principles incorporating the straight-line method of depreciation must be used. Accelerated methods of depreciation are not acceptable. Facilities must follow American Hospital Association Guidelines for Depreciation as the basis for calculation of straight-line depreciation. It is not required to deduct salvage value from the cost of the asset for the purpose of calculating depreciation. Component depreciation for physical

structures is not acceptable.

Depreciation expense for the year of acquisition and the year of disposal can be computed by using: (1) the half-year method; or (2) the actual time method.

- b) The method and procedure for computing depreciation must be applied from year-to-year on a consistent basis.
- c) The assets shall be recorded at cost. Cost during the construction of an asset, such as architectural, consulting and legal fees, interest, etc., must be capitalized as a part of the cost of the assets. When an asset is acquired by trade in, the cost of the new asset is the sum of the book value of the old asset and any cash or issuance of debt

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